

AR05

ANNUAL REPORT 1990

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



25/9

CUBE ENERGY CORP.

Cube Energy Corp. is a publicly traded Canadian controlled corporation whose business is the exploration for, and the development and production of natural gas and oil reserves. In recent years, along with drilling for reserves, Cube has purchased producing properties. All of Cube's assets are located in Western Canada and are mainly comprised of producing natural gas properties.

Cube operates and maintains a controlling interest in a majority of its properties. The Corporation also manages interests in common properties for joint venture participants.

HIGHLIGHTS

Gas Production	4108 Mcf/day	+99%
Oil Production	116 Bbl/day	-7%
Cash Flow	\$ 1,712,295	+83%
Cash Flow/Share	\$ 1.03	+69%
Earnings	\$ 668,895	+165%
Earnings/Share	\$ 0.40	+135%

STOCK MARKET

High	\$ 3.10
Low	\$ 1.40
Close	\$ 2.50
Volume	192,541 shares

CORPORATE INFORMATION

HEAD OFFICE
Suite 800
926 - 5th Avenue S.W.
Calgary, Alberta
T2P 0N7
(403) 264-4405
FAX: (403) 269-3020

DIRECTORS and OFFICERS
*Steven P. Dobrowolski
President
Gary W. Selby
Vice-President
R. Gordon Cormie
Secretary
*Gordon M. Adams
*Frederick W. Dent
John Stein, Q.C.

*Member of Audit Committee

MANAGEMENT
Steven P. Dobrowolski,
P.Geol.
President
Gary W. Selby, P.Eng.
Vice-President
Randal J. Matkaluk, CA
Controller
Alan G. Franks, P.Eng.
Production Supervisor
Gloria M. Boogmans
Land Administrator

STOCK EXCHANGE
Alberta Stock Exchange
Symbol: CUK

REGISTRAR and TRANSFER AGENT
Royal Trust
Corporation of Canada
Calgary, Alberta

ABBREVIATIONS USED

Bbl	- Barrel
MBbl	- Thousand Barrels
Mcf	- Thousand Cubic Feet
MMcf	- Million Cubic Feet
Bcf	- Billion Cubic Feet

Cube Energy Corp. continued its rapid expansion into the development and production of gas reserves in fiscal 1990. Improvements in three areas illustrate the changes that are occurring in Cube's position:

1. independent engineering reports indicate that the Corporation's proven gas reserves grew by 49 percent to 16.4 Bcf from 11.0 Bcf,
2. gas production rates increased by 99 percent from 2,068 Mcf per day to 4,108 Mcf per day, and
3. Cube now holds an interest in four gas plants and expects this number to increase to six within five months. Four of the plants will be operated by Cube.

Cube's internal ability to explore for, develop and market its gas production ensures that future growth in gas reserves and productivity will occur.

Average gas prices for fiscal 1990 increased by 11 percent to \$1.43 per Mcf from \$1.29 per Mcf for fiscal 1989. The Corporation has recently signed an 11 year contract with Unigas Corporation for deliveries of approximately 2.6 MMcf per day commencing on November 1, 1990. Volumes are being produced from Cube's properties in Alberta and are to be exported to core markets in the northeastern United States. Pricing is determined on a netback basis.

Oil production remained relatively constant over the year, decreasing by a modest 7 percent to 116 barrels per day from the prior year. The rapid escalation in oil prices experienced after our July 31, 1990 fiscal year end, which may be temporary in nature, has led us to more actively pursue development of additional oil reserves. To achieve that goal we intend to drill a variety of oil prospects, attempt to purchase oil properties, and maximize production from existing wells.

Cube recently sold forward approximately 30 percent of its oil production for a year's time commencing on November 1, 1990. The average price for the period will be \$30.30 U.S. per barrel or approximately \$34.85 Canadian per barrel. This compares to the \$21.85 Canadian per barrel received during fiscal 1990.

Cube's net asset value at a 15 percent discount factor and including 50 percent of probable reserves is \$11,166,038. This translates into a fully diluted asset value of \$5.31 per share.

On a barrel of oil equivalent basis (10 Mcf = 1 barrel), Cube's total reserves increased from 1588.4 Mbbls to 1906.3 Mbbls, and 91 percent of this amount is attributable to gas reserves.

Asset values are estimated each year by using price projections expected for future production, as determined by independent engineering firms. This year, expectations for future price increases have been severely curtailed as compared to prior years and this has limited the increase in asset value that Cube experienced in fiscal 1990. With price projections consistent with those used in fiscal 1989, the 49 percent increase achieved in proven gas reserves would have caused the Corporation's asset value to increase by a more significant amount.

Cube's capital expenditure program of \$1,902,598 during fiscal 1990 can be broken down into three major areas:

- 1) drilling and completion costs in which the Corporation invested 62 percent of its expenditures,
- 2) production acquisitions of 17 percent, and
- 3) construction of facilities and other in which 21 percent was expended.

A similar approach will be maintained in the upcoming year, where a balance will be sought between an active exploration program, direct purchases of reserves, and installation of facilities to allow production to commence from new properties.

A total of 11 wells were drilled in fiscal 1990 on five different properties, resulting in 9 gas wells, one oil well and one dry hole.

Substantial improvements were made in our financial results for fiscal 1990. Cash flow increased by 83 percent to \$1,712,295. Cash flow per share was up by 69 percent to \$1.03. Along with an increase in cash flow, Cube's earnings were also higher by 165 percent at \$668,895, while earnings per share were \$0.40, up by 135 percent.

Bank debt net of working capital deficiency was \$2,136,174 at year end. The ratio of debt to fiscal 1990 cash flow is 1.25, which is a relatively conservative level of debt.

Cube's strengthening financial position is reflected in a recent reduction in our bank rate from last year's rate of prime plus one and a quarter percent to prime plus one half percent. This rate reduction was accompanied by an increase in our credit facility to \$4,000,000. This leaves Cube with an unutilized line of credit of approximately \$2,000,000.

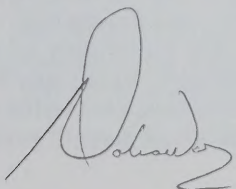
It has been three years since an equity issue was undertaken by Cube. Despite this lack of outside financing, Cube has managed to achieve significant growth rates in a number of areas. With a strengthened balance sheet and higher cash flow figures, we expect to internally finance the bulk of our programs. Cash flow will be utilized to fund exploration and development expenditures along with certain facilities and smaller acquisitions. Gas plants are usually funded through lease to own arrangements. Larger acquisitions will be paid for through joint venture arrangements and bank borrowings.

Approval in principal has been given by Cube's Board of Directors for the Corporation to seek a listing on the Toronto Stock Exchange. Application for a listing is to be made within the next month and is subject to the approval of the Toronto Stock Exchange.

A normal course issuer bid was undertaken in fiscal 1990. To date 6,600 shares have been acquired by Cube for cancellation at an average cost of \$2.70 per share.

During fiscal 1991 we expect a continuation of the pattern of growth established since the oil price fall of 1986 and the deregulation of the natural gas industry. New gas reserves are to be tied in, acquisitions remain to be completed, and various drilling prospects are to be tested. Overall these projects should contribute to an appreciation in shareholders' value. Cube Energy Corp.'s staff and Board of Directors look forward to reporting to shareholders on the results of our various programs during the upcoming year.

Submitted on behalf of the Board of Directors.



Steven Dobrowolski
President

November 7, 1990

Cube Energy Corp. participated in wells drilled in the Berry, Fenn-Big Valley, Atlee, Rowley and Hays Areas of Alberta in fiscal 1990. Of these areas, only the Rowley Area was one in which Cube did not have prior land holdings. Although drilling activities will continue in existing areas, primarily targeted for gas reserves, it is expected that in fiscal 1991 a greater number of anomalies in new areas will be tested. For example, lands have been acquired on prospects in the Atlee South and Sedalia Areas of Alberta, while in Saskatchewan we now have holdings in the Moosomin and Cypress Areas. Two of these areas require seismic coverage and one of them has been shot. The remaining two prospects do not require seismic definition. These particular prospects are also split equally between gas and oil.

Activities in Cube's major producing areas are highlighted below.

ALBERTA

Atlee

One gas well was drilled in the Atlee Area in fiscal 1990. New seismic data has recently been shot and two anomalies were found which require further delineation work to be done.

Cube operates 48 gas wells, a gathering system, sales line and gas plant in Atlee. The Corporation holds various interests totalling 8,905 net acres in this area.

Berry

Production through Cube's new gas plant in the Berry Area (formerly the McBride Area) commenced in April, 1990. This 13.5 MMcf per day facility will greatly enhance Cube's ability to produce the six gas wells that are operated in this area. As expected, outside parties are also utilizing the facility and pay fees to the plant owners which assist in recovering the plant investment costs.

The Berry Area is particularly attractive due to its shallow depths, multiple zone potential and high gas deliverability characteristics. Cube participated in the drilling of one dry hole in this area in fiscal 1990. Subsequent to our year end, Cube seismically delineated and drilled a multiple zone gas well on a new farmin in Berry.

As of year end, Cube held an interest in 9.25 sections in Berry representing 1,445 net acres.

Fenn-Big Valley

Cube currently holds an interest in 23 gas wells in the Fenn-Big Valley Area. As at July 31, 1990, 10 of these wells were on production. The Corporation owns a working interest in a gathering system, gas plant and sales line in the area. The remaining shut in wells are to be tied in over the next six months. Cube and its partners are now considering constructing a second gas plant on the existing sales line to facilitate production start up from the remaining shut in wells.

Cube holds a 33.3 percent working interest in 25 sections of land in this area.

Rowley

A gas well was drilled on a section of land in the Rowley Area in fiscal 1990 and has since been placed on stream. Cube holds a 32 percent working interest in the well and land, which we operate.

Swan Hills

The bulk of Cube's oil production comes from the Swan Hills and adjacent Virginia Hills and Judy Creek Areas. The longer term nature of the reserves and higher quality of the oil have resulted in the Corporation experiencing a minimal decline in its production profile, and have caused Cube to receive higher prices than is usual for its oil production. As with other areas in which Cube owns lands, drilling new wells in high cost deeper areas such as Swan Hills is difficult to justify with oil prices as we received during fiscal 1990. However, a continuation of the current higher prices may justify undertaking certain projects in this area.

SASKATCHEWAN

Moosomin

A seismic program was shot over anomalies in the Moosomin Area during June of this year. Five shallow low cost exploratory oil prospects were defined. Subsequent to our July 31, 1990 year end, two of these features were tested and found to be dry. Cube holds a 70 percent working interest in the project.

Senlac

A 52.5 percent working interest was purchased in a well in the Senlac Area during the reporting period. We anticipate placing the well on stream during November of this year. Transportation constraints will restrict initial production from this well, which has an absolute open flow rate of 20.2 MMcf per day.

PRODUCTION

The 99 percent increase in gas production to 4,108 Mcf per day achieved in fiscal 1990 is the single most important factor in the overall improvement in Cube's financial results. Cube's current shut in gas wells, ongoing drilling activities and acquisition programs should continue to positively impact on the gas production rates.

Oil production rates marginally fell by 7 percent to 116 barrels per day. More emphasis will be placed on increasing oil production this coming year than in the past few years due to the improved pricing outlook.

The following table provides a breakdown of Cube's gas and oil production rates from its various properties. Gross and net revenue figures illustrate the relative costs of operating each property and the relative significance of each to Cube. Next fiscal year should see improvements in our Berry and Fenn-Big Valley gas production figures. New gas production should also commence from new areas including Senlac, Saskatchewan. Approximately 1.5 MMcf per day of new gas production should be placed on production in the current fiscal year.

Area	Production		Gross Revenue	Net Revenue*	
	Gas (MMcf)	Oil (MBbls)	(\$M)	(\$M)	%
Fenn-Big Valley	698	-	1371	770	34.7
Berry Creek	380	-	617	437	19.7
Swan Hills	-	22	500	338	15.2
Atlee	311	-	467	318	14.3
Judy Creek	-	6	129	96	4.3
Virginia Hills	-	9	194	91	4.1
Miscellaneous	111	5	293	170	7.7
	1500	42	3571	2220	100.0

*Net revenue represents gross revenue less net royalties and production expenses.

RESERVES

The trend in the growth of Cube's gas reserves established in 1987 when the Corporation's proven reserves stood at 2.962 Bcf continued in fiscal 1990 with 16.441 Bcf of proven reserves being assigned to Cube's lands based on independent engineering evaluations. Last year's increase in proven gas reserves of 49 percent, up from 11.001 Bcf in fiscal 1989, is quite significant and leaves Cube with a proven reserve life of 11 years based on fiscal 1990 production rates.

Oil reserves are much less significant in Cube's

overall reserve picture. The decrease in proven oil reserves from 201 MBbls to 170 MBbls is more than accounted for in the production of 42 MBbls during the year. A minor addition to reserves occurred as a result of our purchase of an added interest in two Swan Hills wells. Cube's proven oil reserves at 1990 fiscal production rates have an effective life of 4 years. This figure is quite conservative given the production performance of Cube's wells and other oil producers in the area.

Asset Category	Reserves		Present Value of Future Cash Flow (\$M)			
	Gas (MMcf)	Oil (MBbls)	0%	10%	15%	20%
Proven	16,441	170	34,158	17,193	13,548	11,162
Probable	922	0	2,226	768	506	346
Sub-Total	17,363	170	36,384	17,961	14,054	11,508
Gas Plant			561	378	329	286
Undeveloped Land			350	350	350	350
Total Asset Value	17,363	170	37,295	18,689	14,733	12,144

ASSET VALUE

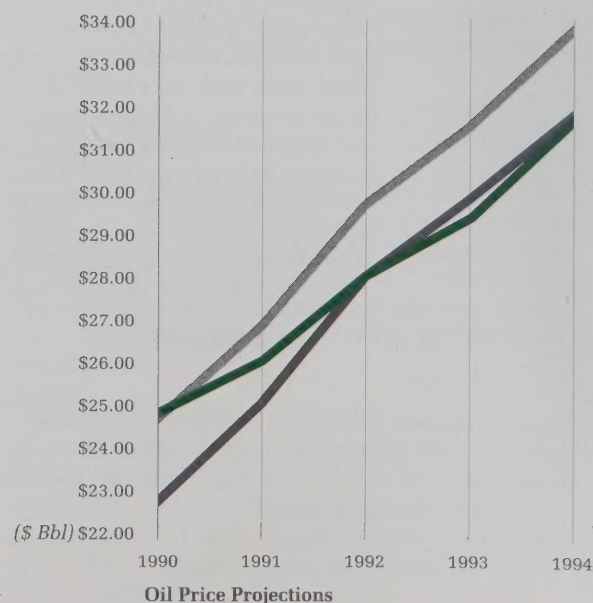
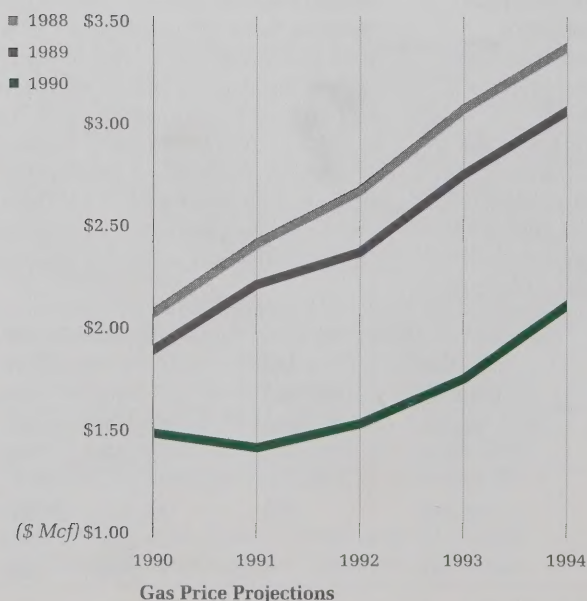
As set out in the preceding table summarizing Cube's asset value, the present value using a 15 percent discount factor of the Corporation's assets is \$14,733,000. This is the total value of future discounted cash flow from Cube's oil and gas reserves, its interest in processing revenue from gas plants, and its undeveloped land. Of the value of the proven gas and oil reserves at a 15 percent discount factor, 86 percent is attributable to the gas reserves, and 14 percent is for the oil reserves.

Net Asset Value		
Asset Value*		\$14,480,000
Plus: Other assets	\$ 275,554	275,554
Sub-Total		14,755,554
Less:		
Long term debt	\$1,400,000	
Capital leases	728,618	
Non-interest bearing debenture	724,724	
Working capital deficiency	736,174	
	\$3,589,516	3,589,516
Net Asset Value		\$11,166,038

*15 percent discount factor - 50 percent of probable reserves

The Net Asset Value table provides a summary for the calculation of Cube's net asset value. On a fully diluted basis, which includes provision for conversion of the non-interest bearing debenture and the exercise of outstanding stock options, Cube's net asset value per share using a 15 percent discount factor is \$5.31 per share.

The 49 percent increase in gas reserves achieved in fiscal 1990 did not translate into a substantial increase in asset value. The two tables on gas and oil price projections used by Cube for the past three years show the relatively consistent and fairly accurate oil price projections, versus the much higher prices for gas production projected in 1988 and 1989 as compared to those projected in 1990. Average gas prices for the next three years are now expected to average \$0.89 per Mcf lower than was estimated last year. The average projected price for the same period is now down to \$1.61 per Mcf. This reduction severely impairs asset values as the price differential is essentially all cash flow.



Cube's consolidated statement of earnings for fiscal 1990 has improvements in most areas with revenue up by 72 percent to \$4,071,432, cash flow increasing by 83 percent to \$1,712,295 and earnings up by 165 percent to \$668,895. All three categories are records for Cube.

More importantly, per share figures also showed improvements as cash flow went from \$0.61 to \$1.03 per share and earnings reached \$0.40 per share versus the \$0.17 per share for the prior year.

Overall expenses on the consolidated statement of earnings increased proportionately to the growth in the Corporation's revenues. Specific categories showed disproportionate increases with general and administrative and interest on long-term debt showing more moderate increases. The interest on capital leases expense is proportionately higher due to having a full year's expense on our larger gas plant lease and a portion of a year's expense on a second plant which commenced production during fiscal 1990.

The higher percentage increase in earnings versus cash flow is a reflection of the successful replacement of produced reserves and addition of new gas reserves during the year. This has caused our depletion charge to be relatively lower than would otherwise have been.

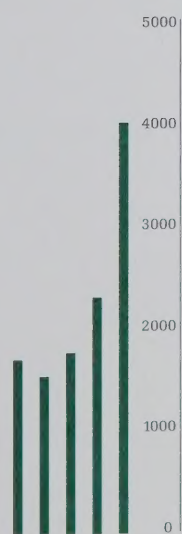
The Corporation's consolidated balance sheet is fairly consistent with the prior year. Our bank debt net of working capital deficiency showed a small increase from \$2,000,296 to \$2,136,174. Obligations under capital leases for construction of new gas plants decreased slightly to \$728,618 as significant reductions were made in one lease and a second lease was instituted. We anticipate adding two plants in fiscal 1991 of which one may be funded by a third lease to purchase agreement.

Cube's tax pools stood at \$6,363,205 at year end.

Pricing	1990	1989
Gas (\$ per Mcf)	1.43	1.29
Oil (\$ per Bbl)	21.85	19.11

Most of Cube's gas production and approximately 30 percent of its oil production is contracted. This will ensure that premium prices are received for our gas sales, and that higher and more stable revenues are derived from our oil production in fiscal 1991.

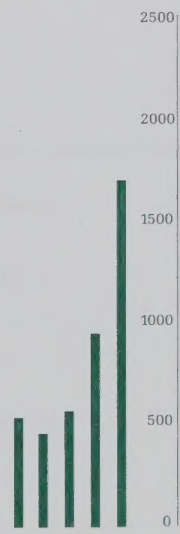
Gas production to be added during the year should combine with these improving prices to allow Cube to report record financial figures in the coming year.



'86 '87 '88 '89 '90 Fiscal

Gross Revenue

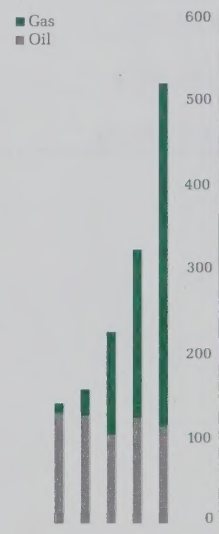
(\$ in 000's)



'86 '87 '88 '89 '90 Fiscal

Cash Flow

(\$ in 000's)



'86 '87 '88 '89 '90 Fiscal

Equivalent Daily Oil Production
(10 Mcf = 1 Bbl)

AUDITOR'S REPORT

To the Shareholders
Cube Energy Corp.

We have examined the consolidated balance sheet of Cube Energy Corp. as at July 31, 1990 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at July 31, 1990 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Collins Banow

CHARTERED ACCOUNTANTS

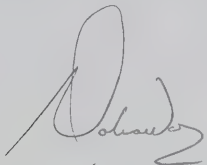
Calgary, Alberta
October 29, 1990

CONSOLIDATED BALANCE SHEET

July 31, 1990

	1990	1989
ASSETS		
Current assets		
Cash	\$ 30,005	\$ —
Accounts receivable	1,072,189	1,475,145
	1,102,194	1,475,145
Property and equipment (note 2)	8,615,879	7,852,146
Other assets (note 3)	275,554	224,980
	\$ 9,993,627	\$9,552,271
LIABILITIES		
Current liabilities		
Bank overdraft	\$ —	\$ 60,211
Accounts payable and accrued liabilities	1,495,456	1,603,233
Current portion of obligations under capital leases	342,912	215,733
	1,838,368	1,879,177
Obligations under capital leases (note 4)	728,618	755,321
Long-term debt (note 5)	1,400,000	1,596,264
Non-interest bearing debenture (note 6)	724,724	724,724
SHAREHOLDERS' EQUITY		
Share capital (note 7)	4,101,113	4,064,876
Retained earnings	1,200,804	531,909
	5,301,917	4,596,785
	\$ 9,993,627	\$9,552,271

Approved on behalf of the Board,

, Director

, Director

CONSOLIDATED STATEMENT
OF EARNINGS
Year ended July 31, 1990

		1990	1989
REVENUE	Oil and gas	\$3,571,185	\$2,000,336
	Alberta royalty tax credit	283,616	204,195
	Operator's fees and other	216,631	168,064
		<hr/> 4,071,432	<hr/> 2,372,595
EXPENSES	Production	963,517	544,589
	Royalties	671,053	374,870
	General and administrative	393,127	336,794
	Interest on long-term debt	185,087	152,040
	Interest on capital leases	146,353	27,455
		<hr/> 2,359,137	<hr/> 1,435,748
CASH FLOW	Cash flow generated from operations	1,712,295	936,847
	Charges not requiring funds		
	Depletion	690,000	451,000
	Depreciation	353,400	233,000
		<hr/> 1,043,400	<hr/> 684,000
	Earnings before income taxes	668,895	252,847
	Income taxes (note 8)	—	—
		<hr/>	<hr/>
NET EARNINGS	Net earnings	\$ 668,895	\$ 252,847
PER SHARE DATA	Earnings per share	\$ 0.40	\$ 0.17
	Fully diluted earnings per share	\$ 0.30	\$ 0.12
	Cash flow per share	\$ 1.03	\$ 0.61

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended July 31, 1990

		1990	1989
OPERATING ACTIVITIES	Cash flow from operations	\$1,712,295	\$ 936,847
	Net change in non-cash working capital balances	295,179	(551,561)
	Cash flow from operations available for investment	2,007,474	385,286
INVESTING ACTIVITIES	Acquisition of property and equipment	(1,902,598)	(3,481,891)
	Petroleum and other incentive payments	21,130	344,014
	Disposal of property and equipment	74,335	81,445
	Cash used in investing activities	(1,807,133)	(3,056,432)
FINANCING ACTIVITIES	Net proceeds (repayment) of long-term debt	(196,264)	796,264
	Net proceeds of capital leases	100,476	971,054
	Issuance of share capital	55,250	828,148
	Share capital issuance costs	(19,013)	(3,001)
	Increase in other assets	(50,574)	(10,126)
	Cash provided by (used in) financing activities	(110,125)	2,582,339
SUMMARY	Cash inflow (outflow)	90,216	(88,807)
	Cash (bank overdraft), beginning of year	(60,211)	28,596
	Cash (bank overdraft), end of year	\$ 30,005	\$ (60,211)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended July 31, 1990

		1990	1989
RETAINED EARNINGS	Retained earnings, beginning of year	\$ 531,909	\$ 279,062
	Net earnings	668,895	252,847
	Retained earnings, end of year	\$1,200,804	\$ 531,909

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended July 31, 1990

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Corporation, conform in all material respects with International Accounting Standards. The significant accounting policies are summarized below:

a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the Corporation, the accounts of its wholly-owned subsidiaries.

b) Exploration and development costs

The Corporation follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Exploration and development costs are allocated to cost centres on a country by country basis.

Costs capitalized in the cost centres are depleted on the composite unit-of-production method based on estimated proven oil and natural gas reserves as determined by independent and Corporation engineers.

In applying the full cost method, the Corporation performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, financing costs and income taxes for each cost centre. In calculating the above cost centre ceiling tests, \$1.57 Canadian per MCF of gas was used as the average price of gas for the year and \$22.00 Canadian per barrel of oil was used as the average price of oil for the year.

c) Depreciation

Lease and well equipment are depreciated on the composite unit-of-production method. Other equipment is depreciated on the declining balance method at 20% per annum.

d) Joint venture accounting

Substantially all of the exploration and production activities of the Corporation are conducted jointly with others and accordingly these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

e) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Corporation.

The value assigned to the properties upon which subscribers' funds were expended is the actual dollar amount of the expenditures with share capital being recorded based on cash received.

2. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value	
			1990	1989
Petroleum and natural gas leases and rights including exploration and development thereon	\$ 10,807,584	\$ 4,904,200	\$5,903,384	\$5,406,988
Lease and well equipment	4,105,668	1,438,000	2,667,668	2,413,967
Other equipment	127,842	83,015	44,827	31,191
	\$ 15,041,094	\$ 6,425,215	\$8,615,879	\$7,852,146

During the year, the Corporation capitalized general and administrative expenses in the amount of \$195,575 (1989 - \$171,313) and interest on long-term debt in the amount of \$36,826 (1989 - \$19,943). Included in lease and well equipment are \$1,511,015 of assets held under capital leases.

3. OTHER ASSETS

Other assets consists of:

	1990	1989
Notes receivable	\$ 112,800	\$ 57,550
Long-term receivables	162,754	167,430
	\$ 275,554	\$ 224,980

a) Notes receivable

Pursuant to share options exercised, the Corporation has advanced funds to certain employees to enable them to purchase Common Shares from treasury. The advances are non-interest bearing, are secured by promissory notes and are due on or before November 15, 1998.

b) Long-term receivables

The Corporation had a participation plan whereby certain officers and employees were allowed to participate up to a total of 10% of the Corporation's working interest in new ventures. Amounts are non-interest bearing with no fixed terms of repayment.

4. OBLIGATIONS UNDER CAPITAL LEASES

	1990	1989
Obligation repayable in monthly payments of \$30,100, including interest at 14.11%. Secured by certain lease and well equipment and expiring March 1, 1993.	\$ 755,321	\$971,054
Obligation repayable in monthly payments of \$10,822, including interest at 15.45%. Secured by certain lease and well equipment and expiring November 1, 1993.	316,209	—
	1,071,530	971,054
Less: Portion due within one year	342,912	215,733
	\$ 728,618	\$755,321

The minimum principal payments due on these leases are as follows:

1991	\$ 342,912
1992	404,880
1993	291,246
1994	32,492

\$ 1,071,530

5. LONG-TERM DEBT

Long-term debt consists of a bank production loan which bears interest at 0.5% over the Alberta Treasury Branches' prime lending rate and is secured by a \$5,000,000 fixed and floating charge debenture over the assets of the Corporation, a specific assignment of production revenue and a negative pledge covering certain oil and gas properties. The loan is due on demand, however, the management of the Corporation does not anticipate the Alberta Treasury Branches to demand repayment within the next fiscal year. As a result, the bank production loan has been classified as a long-term liability. This credit facility totals \$4,000,000, and will have an annual review on November 30, 1991.

6. NON-INTEREST BEARING DEBENTURE

The debenture is convertible, at any time, into 470,600 Common Shares of the Corporation and is secured by certain oil and gas properties. The debenture is non-interest bearing unless the debenture holder makes demand for repayment, at which time the debenture will bear interest at 1% over a Canadian chartered bank's prime lending rate. The debenture has not been demanded for repayment.

The management of the Corporation does not anticipate that the debenture holder will demand principal repayments within the upcoming fiscal year. As a result, the debenture has been classified as a long-term liability.

7. SHARE CAPITAL

a) Authorized

Unlimited number of Common Shares, voting, without nominal or par value
 470,600 Class A Shares, voting, without nominal or par value
 1,110,113 First Preferred Shares, non-voting, without nominal or par value

b) Issued

	Number	Stated Value
Common Shares		
Balance, July 31, 1989	1,643,850	\$ 3,565,315
Issued to employees pursuant to stock option plan	42,500	55,250
Balance, July 31, 1990	<u>1,686,350</u>	<u>3,620,565</u>
Class A Shares		
Balance, July 31, 1990 and 1989	<u>470,600</u>	<u>471</u>
First Preferred Shares		
Balance, July 31, 1990 and 1989	<u>1,096,278</u>	<u>1,096,278</u>
Less: Share capital issuance costs		<u>616,201</u>
		<u>\$ 4,101,113</u>

c) The Class A Shares were issued to investors in conjunction with the \$724,724 debenture (note 6). The shares are redeemable from time to time either upon the repayment of all or a portion of the outstanding principal amount of the debenture or upon conversion of the Class A Shares into Common Shares of the Corporation, on a basis that one Class A Share will be redeemed for each portion of the outstanding

principal amount of the debenture equal to \$1.54 which is either repaid or converted into Common Shares.

- d) The First Preferred Shares bear a 10% non-cumulative dividend accruing, upon declaration, from and after July 31, 1986. The shares are retractable, at the option of the holder, at a retraction value of \$1.00 per share at the following rates based on the initial number of shares held by each holder:
- 1991 to 2000 - 5% per year
 - 2001 to 2005 - 10% per year

The shares are fully redeemable by the Corporation at a redemption value of \$1.00 per share at the option of the Corporation at any time.

- e) As at July 31, 1990, 108,000 Common Shares have been reserved under the Corporation's stock option plan. Options are exercisable at \$1.30 per share and expire in 1998.
- f) Net earnings and cash flow per share have been calculated using the weighted average number of Common Shares of 1,659,976 outstanding during the year.

- a) Income taxes are comprised as follows:

	1990	1989
Deferred income taxes	\$ 398,000	\$ 191,000
Income tax reduction resulting from utilization of loss carry-forward	(398,000)	(191,000)
	\$ —	\$ —

Accounting losses carried forward result from a previous year's write-down of petroleum and natural gas leases and rights thereon.

- b) Income tax expense, comprised entirely of deferred income taxes, differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates to earnings before income taxes. Details of the changes are set out below:

	1990	1989
Effective Canadian income tax rate	43.8%	45.6%
Computed "expected" income taxes	\$ 293,244	\$ 115,298
Increase (decrease) in income taxes resulting from:		
Non-deductible crown payments, net of Alberta royalty tax credit	64,806	34,809
Resource allowance and earned depletion	(37,483)	(25,650)
Depletion of property and equipment without tax cost	77,433	66,543
Deferred income taxes	\$ 398,000	\$ 191,000

8. INCOME TAXES

FIVE YEAR CORPORATE PROFILE

	Fiscal Year Ended July 31	1990	1989	1988	1987	1986
FINANCIAL <i>(\$ in 000's except per Share amounts)</i>	Gross Revenues	\$ 4,071	\$ 2,373	\$ 1,778	\$ 1,596	\$ 1,742
	Operating and Royalties	1,635	919	752	647	755
	General and Administrative	393	337	321	266	279
	Interest	331	180	146	227	172
	Cash Flow	1,712	937	559	456	536
	Earnings	669	253	191	89	255*
	Cash Flow per Share	1.03	.61	.57	.55	1.20
	Earnings per Share	.40	.17	.19	.11	.50
	Working Capital (Deficiency)	(736)	(404)	(651)	(273)	(231)
	Debenture	725	725	725	725	1,125
	Long-Term Debt	1,400	1,596	800	1,700	1,723
	Capital Leases	729	755	-	-	-
	Capital Expenditures	1,881	3,138	1,411	312	1,966
	Shareholders' Equity	5,302	4,597	3,519	2,169	2,080
	Total Assets	9,994	9,552	6,802	5,770	6,840
RESERVES	Gas - MMcf - Proved	16,441	11,011	11,275	2,962	3,196
	- Probable	922	2,163	210	611	1,240
	Oil - MBbl - Proved	170	201	250	628	745
	- Probable	0	70	141	51	145
OPERATIONS	Daily Gas Production - Mcf	4,108	2,068	1,255	335	101
	Daily Oil Production - Bbl	116	125	106	135	139
DRILLING - CANADA	Gas	9	17	5	1	1
	Oil	1	1	4	0	7
	Dry	1	3	2	0	2
	Total	11	21	11	1	10
LAND HOLDINGS	Canada - Net Acres	26,049	19,750	14,838	10,478	10,518
ASSET VALUE <i>15% discount factor</i>	Proven	\$ 13,548	\$ 12,260	\$ 10,266	\$ 8,092	\$ 8,436
	Probable (50 percent)	253	862	611	284	712
	Land and Plant	679	277	129	125	136
	TOTAL	\$ 14,480	\$ 13,399	\$ 11,006	\$ 8,501	\$ 9,284
	Number of Employees	6	6	6	5	6

*Before unusual items



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